

**Audit Results From
CAFR and Single Audit Procedures**

Department of Children's Services

**For the Year Ended
June 30, 2003**

**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY**

**Department of Audit
Division of State Audit**

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**Department of Children's Services
For the Year Ended June 30, 2003**

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**Department of Children's Services
For the Year Ended June 30, 2003**

EXECUTIVE SUMMARY

Findings

- FINDING 1 Management has again failed to implement promised corrective action and, as noted in the previous nine audits, Children's Services has not collected overpayments. Uncollected overpayments totaling at least \$1,121,992 are due from foster care and adoption assistance parents.
- FINDING 2 The department charged the Title IV-E program for children not eligible for Title IV-E reimbursement, had no documentation of criminal background checks of foster parents, and appeared to place children with individuals unfit to be foster parents. This finding is repeated from the prior year. Federal questioned costs for the cases sampled totaled \$98,899.
- FINDING 3 Case files did not contain adequate documentation of case manager compliance with departmental policies regarding contacts, timeliness of case recordings, and permanency plans for foster children. This finding was noted in the four previous audits.
- FINDING 4 Adoption Assistance files did not contain adequate documentation to support the adoption assistance subsidies paid to adoptive parents. The total costs questioned for the cases sampled were \$65,521. The federal share of those costs was \$41,565. This finding is repeated from the prior year.
- FINDING 5 For the seventh consecutive year, Children's Services inappropriately requested and received reimbursement from TennCare for children not eligible for TennCare services. Inappropriate reimbursements were for incarcerated youth, children not in state custody, children on runaway status, and hospitalized children. Total overpayments were \$1,742,440.
- FINDING 6 The department committed funds without approval. Since July 1, 2003, the Department of Children's Services has committed state and federal TennCare funds before it had a contract with the Bureau of TennCare to provide services.

This report addresses reportable conditions in internal control and noncompliance issues found at the Department of Children's Services during our annual audit of the state's financial statements and major federal programs. The scope of our audit procedures at the Department of Children's Services was limited. During the audit for the year ended June 30, 2003, our work at the Department of Children's Services focused on two major federal programs: Foster Care Title IV-E and Adoption Assistance. In addition, our work encompassed funding from the Bureau of TennCare for the care of children in state custody. A significant portion of these funds are from the Medical Assistance Program, a major federal program administered by the Department of Finance and Administration, Bureau of TennCare. We audited these federally funded programs to determine whether the department complied with certain federal requirements and whether the department had an adequate system of internal control over the programs to ensure compliance. Management's response is included following each finding.



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

State Capitol
Nashville, Tennessee 37243-0260
(615) 741-2501

John G. Morgan
Comptroller

May 18, 2004

The Honorable Phil Bredesen, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and

The Honorable Viola P. Miller, Commissioner
Department of Children's Services
Cordell Hull Building, Seventh Floor
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith are the results of certain limited procedures performed at the Department of Children's Services as a part of our audit of the *Comprehensive Annual Financial Report* of the State of Tennessee for the year ended June 30, 2003, and our audit of compliance with the requirements described in the U.S. Office of Management and Budget Circular A-133 Compliance Supplement.

Our review of management's controls and compliance with laws, regulations, and the provisions of contracts and grants resulted in certain findings which are detailed in the Findings and Recommendations section.

Sincerely,

John G. Morgan
Comptroller of the Treasury



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
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December 15, 2003

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have performed certain audit procedures at the Department of Children's Services as part of our audit of the financial statements of the State of Tennessee as of and for the year ended June 30, 2003. Our objective was to obtain reasonable assurance about whether the State of Tennessee's financial statements were free of material misstatement. We emphasize that this has not been a comprehensive audit of the Department of Children's Services.

We also have audited certain federal financial assistance programs as part of our audit of the state's compliance with the requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement. The following table identifies the State of Tennessee's major federal programs administered by the Department of Children's Services. We performed certain audit procedures on these programs as part of our objective to obtain reasonable assurance about whether the State of Tennessee complied with the types of requirements that are applicable to each of its major federal programs.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Major Federal Programs Administered by the
Department of Children's Services *
For the Year Ended June 30, 2003
(in thousands)**

CFDA Number	Program Name	Federal Disbursements
93.659	Foster Care Title IV-E	\$24,588
93.667	Adoption Assistance	\$12,289

Source: State of Tennessee's Schedule of Federal Financial Assistance for the year ended June 30, 2003.

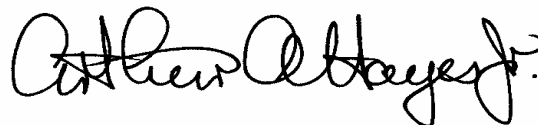
* The department also received funding from the Bureau of TennCare for the care of children in state custody. A significant portion of these funds are from the Medical Assistance Program (CFDA Number 93.778), a major federal program administered by the Department of Finance and Administration, Bureau of TennCare.

We have issued an unqualified opinion, dated December 15, 2003, on the State of Tennessee's financial statements for the year ended June 30, 2003. We will issue, at a later date, the State of Tennessee *Single Audit Report* for the same period. In accordance with *Government Auditing Standards*, we will report on our consideration of the State of Tennessee's internal control over financial reporting and our tests of its compliance with certain laws, regulations, and provisions of contracts and grants in the *Single Audit Report*. That report will also contain our report on the State of Tennessee's compliance with requirements applicable to each major federal program and internal control over compliance in accordance with OMB Circular A-133.

As a result of our procedures, we identified certain internal control and/or compliance issues related to the major federal programs at the Department of Children's Services. Those issues, along with management's response, are described immediately following this letter. We have reported other less significant matters involving the department's internal control and instances of noncompliance to the Department of Children's Services' management in a separate letter.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee and management, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Sincerely,



Arthur A. Hayes, Jr., CPA
Director

FINDINGS AND RECOMMENDATIONS

- 1. Management has again failed to implement promised corrective action and, as noted in the previous nine audits, since July 1, 1993, Children's Services has not collected overpayments; uncollected overpayments totaling at least \$1,121,992 are due from foster care and adoption assistance parents**

Finding

As noted in the nine previous audits, from July 1, 1993, to June 30, 2002, the Department of Children's Services (DCS) still has not collected overpayments from foster care and adoption assistance parents. Management concurred with the prior audit finding and stated,

Given the length of time that some of the overpayments have been outstanding, the Assistant Commissioner of the Fiscal and Administrative Services Division has directed staff to stratify the overpayments by age and by the dollar amounts described in Finance and Administration Policy Statement 23. Each overpayment will be examined, along with documentation of past collection efforts. Although this process is laborious, it is necessary to confirm the validity of each overpayment comprising the total balance. In accordance with Finance and Administration Policy 23, the department will pursue collection both through its own efforts and through file transmission to the contracted collection agency. If all reasonable collection efforts are not successful, the department will request write-off of the receivables under the auspices of the aforementioned policy.

As of June 30, 2003, the department's records indicated an outstanding accounts receivable balance for these parents totaling \$1,121,992, a decrease of only \$8,336 since June 2002. While the collections from foster care parents resulted in an overall decrease of \$14,384, the newly identified overpayments amount attributable to adoption assistance resulted in an overall increase of \$6,048. The prior audit finding disclosed a total decrease of \$48,089 in the outstanding accounts receivable balance.

In order to negate the need for separate departmental collections contracts, on February 1, 2002, the Department of Finance and Administration entered into a statewide collections contract. Department of Children's Services management indicated that during the months of November and December 2002, the Fiscal and Administrative Services Division experienced technical difficulties with formatting the data file containing the account information necessary to submit to Finance and Administration and the contracted collection agency. This may account for the minimal amount of collections made during the current fiscal year. To account for the technical difficulties mentioned above, management stated that "the department would prepare batches of 100 accounts each month and submit the information to turn over for collection." Since the first batch of 100 accounts totaling \$114,518 was sent to the Department of Finance and Administration on October 3, 2002, inexplicably, there have not been any additional batches submitted for collection as of December 15, 2003.

In addition, management's response to the prior finding stated that it "is confident that the controls currently in place drastically limit the amount of overpayments to foster care and adoption assistance parents. In addition, the system currently in place allows for timely collection of any overpayments made to these parents." The controls in place appear to have reduced the amount of and increased timely collection of overpayments to foster care parents. However, the controls over adoption assistance payments have not improved.

Of the 158 adoption assistance overpayment adjustments, our review of 25 of the larger adjustments made during the fiscal year indicated that:

- Nine of these overpayments were due to disrupted adoptions where the parents surrendered rights to the children. These cases indicated that overpayments to parents ranged between 23 and 120 days. According to explanations on the adjustment form, the adoptive parents did not notify DCS timely to stop the payments. In addition, four of these overpayments were made to adoptive parents for four children in their home. DCS case managers removed these children from the adoptive parents' home and placed them in foster care. The parents continued to receive adoption assistance at the same time as the department was paying foster parents for their care. Subsequently, at a court hearing with DCS representatives present, the adoptive parents surrendered their parental rights to DCS; however, adoption assistance payments continued to these parents for an additional four months after the children were no longer their legal responsibility. These payments resulted in a total overpayment of \$9,434.
- Four of these overpayments were due to children moving out of the adoptive parents' homes. For these cases, payments continued from one to three months after the children's eligibility for adoption assistance terminated. According to the adjustment forms, the adoptive parents did not notify DCS timely to stop the payments.
- Two of these overpayments were due to children over 18 leaving school. Payments continued from three to four months for these overpayments. According to the adjustment forms, the adoptive parents did not notify DCS timely to stop the payments.
- Four of these overpayments were due to children turning age 18 or 21, and payments not being stopped. According to discussions with management, these payments are continued until the department's regional designee notifies the central office. Overpayments continued for periods ranging from two months to at least two years.
- Four of these overpayments were due to contract duplication, where the same child was entered into the ChiPFinS system with two different names and/or identification numbers. Therefore, payments were made for the same child twice. Overpayments continued for periods ranging from two to four months.

- For one overpayment, the contract start date was erroneously entered as February 1, 2002, when the correct contract start date was actually February 1, 2003. This resulted in an unusually large payment of \$5,168 being sent to the adoptive parent. The adoptive parent notified DCS of the overpayment.
- One overpayment was due to the adoptive parents receiving adoption assistance from DCS as well as foster care payments from a contracted agency for at least three months. This overpayment appeared to be from a lack of communication between the Adoption Services unit that administered the adoption assistance and the Foster Care division that oversees foster care payments.

The total amount overpaid for the 25 instances was \$54,247. Proper controls do not appear to be in place to prevent these overpayments. Based on the explanations on the adjustment forms, DCS appears to be relying solely upon the adoptive parents to notify the department with a change in eligibility even when the child has been returned to state custody. In such cases, it was obvious that DCS personnel were aware of the change in eligibility status, but the adoption assistance has continued. This appears to be caused by a lack of communication between the different divisions within the department. Furthermore, it appears that the regional designees are routinely approving the monthly adoption assistance payments without determining eligibility.

Recommendation

The Assistant Commissioner of Fiscal and Administrative Services and the Director of Fiscal Services should increase their efforts to recover all funds from foster care or adoption assistance parents who received overpayments but are no longer keeping children. These steps should include increasingly aggressive collection letters, telephone calls, collection agencies, and litigation. Although it is current DCS policy that parents receiving adoption assistance payments are to notify the department when they are no longer eligible to receive payments, the department should have additional controls to minimize these overpayments. The Commissioner of DCS should develop protocol for the different divisions within the department, particularly between DCS Fiscal Services, DCS Adoption Services, DCS regional offices' adoption units, and Child Protective Services, so that the proper individuals are informed of changes in children's cases and/or changes that affect adoption assistance eligibility in a timely manner. The Assistant Commissioner of the Program Operations Division should ensure that adoption assistance paid to adoptive parents is terminated when eligibility terminates. Also, programmatic and system controls should be developed and implemented to ensure that payments are not being made on behalf of the same child more than once. Since adoption assistance payments are based on information indicated on the Subsidized Adoption Turnaround Document (Form 16), regional designees should verify this information before authorizing payments.

Management's Comment

We concur. Controls in place were not effective for reducing the amount of or improving the timely collection of overpayments to foster care parents. Controls regarding adoption assistance payments have not been effective. To address this issue the Department of Children's Services, Director of Fiscal Services will establish a team from Accounts Payable and Accounts Receivable to assure timely compliance with the Department of Finance and Administration's Policy 23 concerning the collection of accounts receivable. Beginning February 2004, monthly letters will be mailed to the last known address for persons with accounts that have had no collection activity in the ninety days prior to January 31, 2004. The number of monthly letters mailed will comply with Finance and Administration's Policy 23 based on the dollar amount to be collected. Mailing of all letters required by Policy 23 will be completed prior to April 30, 2004. A file of all accounts adhering to the requirements of Policy 23 that remain uncollected as of May 31, 2004, will be submitted to the Department of Finance and Administration to be turned over to the assigned collection agency prior to June 30, 2004. All accounts returned uncollected by the assigned collection agency will be reviewed by DCS legal staff to determine the appropriate legal action, if any. This referral will be completed within thirty days from the date the accounts have been returned by the Department of Finance and Administration. At the time that all collection activities have been exhausted, uncollected accounts will be written off in compliance with Policy 23. The balances due will be marked in CHIPFINS as written off. However, the balance will remain active in CHIPFINS to facilitate collection if the person becomes a foster or adoption parent at a later date. In addition to the above actions, the Commissioner has instructed DCS Fiscal and Program Operations to form a management team to address issues related to timely notification of placement disruptions by foster and adoptive parents and to facilitate timely recordings to these events in DCS records.

2. The department charged the Title IV-E program for children not eligible for Title IV-E reimbursement, had no documentation of criminal background checks of foster parents, and appeared to place children with individuals unfit to be foster parents

Finding

As noted in the prior audit finding covering the period July 1, 2001, through June 30, 2002, the Department of Children's Services (DCS) charged the Title IV-E Foster Care program for children who were not eligible for Title IV-E reimbursement. The Adoption and Safe Families Act of 1997 requires documentation that efforts were made to preserve the family and that removal of a child from his/her home was appropriate and necessary to ensure the child's safety, health, and welfare. To meet these requirements, DCS Policy 16.36, "Title IV-E Foster Care Funds, Court Orders and the Initial Eligibility Determination Process," states,

DCS legal staff and/or case managers shall ensure that the first court order sanctioning the removal of the child shall include a judicial determination to the effect that continuation in the home is "contrary to the welfare of the child" or that "placement is in the best interest of the child" or words to that effect.

Furthermore, DCS Policy 16.35, “Title IV-E Foster Care Funds and On-Going Reasonable Efforts to Finalize Permanency Plans,” requires DCS to secure a new court order at each permanency hearing that includes a judicial determination that reasonable efforts have been made to finalize the goal of the permanency plan. Permanency plan hearings are to be held no later than 12 months after a child enters custody and every 12 months thereafter. Absent the required language in judicial determinations, the department may not receive Title IV-E Foster Care reimbursement for the care and maintenance of an otherwise eligible child. Policies 16.35 and 16.36 provide specific instructions for case managers to follow in recording the child’s benefit status in the appropriate computer systems and documenting the child’s status in the case files.

Management concurred with the prior audit finding and stated:

The Assistant Commissioner for Fiscal and Administrative Services, in conjunction with divisional management staff, will prepare a formal request to the department’s Information Resources Section to provide programming to enable automated data matches between the computer application used by fiscal to determine funding and ChipFins. As eligibility status is not fixed, manual review and adjustment cannot be performed timely and is not practical due to the volume of children in custody. Although performing data matches between the funding database and ChipFins will provide immediate correction of the problem, it is management’s goal to continue to aggressively pursue the Placement Re-Design and Title IV-E Eligibility module development and implementation in the TNKIDS system. These modifications along with the implementation of the Oracle Financial System will correct this problem going forward from a fiscal perspective.

Based on discussion with management, DCS has implemented a new program to retroactively review the changes in status of the children by comparing status information between the ChiPFinS and the funding databases. According to management, this retroactive review is to be performed quarterly. DCS performed its first review during the first quarter of the 2003–2004 fiscal year. As of December 15, 2003, there had been no review performed during the second quarter.

During a review of 120 children’s case files by the auditor, it appeared the department received Title IV-E funds for 34 children (28%) during periods when they were not IV-E reimbursable. This is a significant increase from the prior audit, when the error rate was 3%.

- Twenty of the children’s case files did not contain documentation that a permanency plan hearing was held within the 12-month requirement to document for the court the reasonable efforts made by the department to achieve permanency for the child. The department’s legal staff was subsequently able to document that permanency plan hearings were held within the required time frames for seven of these children. However, since there was no documentation for the other thirteen children to indicate a hearing was held, the federal requirement that a court order with a judicial determination that reasonable efforts (or words to that effect) has been made to

finalize the permanency plan has not been met. This makes the child ineligible to receive Title IV-E federal funding for that 12-month period. In addition, one of these children was on runaway status for much of the fiscal year. The federal questioned costs for these payments totaled \$20,807, with an additional \$11,887 in state matching funds.

- Twelve of the children's case files did contain a court order as documentation that the annual permanency plan hearing was held; however, the court order did not contain a judicial determination that reasonable efforts (or words to that effect) on behalf of DCS were made to finalize the permanency plan. This makes the child ineligible to receive Title IV-E federal funding for that 12-month period or until a judicial determination has been made. The federal questioned costs for these payments totaled \$61,575, with an additional \$34,121 in state matching funds.
- One child was not IV-E reimbursable according to the ChiPFinS eligibility history screen; however, the department charged the IV-E program for that child for that period. The federal questioned costs for these payments totaled \$226 with an additional \$124 in state matching funds.
- One child was on runaway status for 40 days. The federal questioned costs for these payments totaled \$27, with an additional \$15 in state matching funds.
- One child was not in state custody during the time period that federal funding was used. The contract agency billed the state for services when this child was not in state custody, and the department charged the IV-E program. The federal questioned costs for these payments totaled \$547, with an additional \$300 in state matching funds.
- One child's case file contained a court order documenting a permanency plan hearing; however, it was not signed by a judge. The federal questioned costs for these payments totaled \$3,526, with an additional \$1,953 in state matching funds.

The remaining five cases were ineligible for federal funding because the department had no documentation of background checks for foster parents as required by DCS policy and federal guidelines. Eligibility requirements for the Foster Care program under Title IV-E state:

The foster family home provider must have satisfactorily met a criminal records check with respect to prospective foster and adoptive parents (45 CFR 1356.30 [a] and [b]).

Also, DCS Policy 16.4, Foster Home Study, Evaluation and Training Process, states:

A criminal background check to include fingerprinting and sex offender registry check must be completed on each foster parent applicant, as well as any other adult member of the household, and documented in the foster home record.

The sample of 120 case files represented 91 foster homes. For 5 of the 91 foster homes' files tested (5%), the files did not contain documentation that the background checks were performed. The prior audit finding disclosed that in 4 of 81 foster home files tested (5%), the file did not contain documentation that the background checks were performed as described in DCS policy.

- Four files contained no evidence that criminal background checks were performed on the foster parents. Also, one of these files did not document that the foster parents received Parents As Tender Healers (PATH) training. Recordings in the case file indicated that case managers were aware of the lack of documentation since 1999. Furthermore, a case recording in May 2000 stated that, at a hearing for the foster parent's biological son's probation violation, a judge expressed concern regarding the fitness of the foster mother's being a foster parent. In October 2002, the child was removed from the home. The federal questioned costs for these payments totaled \$10,017, with an additional \$5,551 in state matching funds.
- One case file did not contain evidence of a criminal background check on the foster mother. The foster father's background check with the county sheriff's department noted several law violations and charges of attempt to commit a felony (the file did not include information from the county court regarding conviction) and numerous violations for driving while licenses were revoked. Both foster parents had revoked drivers' licenses; therefore, neither parent could lawfully operate a vehicle to transport the child. DCS policy 16.3, I.6., states "Prospective foster parent(s) shall have the ability to . . . provide routine transportation for the foster children placed in their home." While there was no evidence that a background check was performed on the foster mother, there were authorizations completed by both foster parents for their background investigations. However, these authorizations were dated after the court order that placed the child in the home. The federal questioned costs for these payments totaled \$2,174, with an additional \$1,192 in state matching funds.

In addition, our review of one case file indicated that DCS did not adequately monitor foster care placement with its contracted agency. A child was placed in a foster parent's home by a contracted agency with DCS. According to case recordings, this child's placement was due to downsizing of the group home services provided by the contracted agency. Prior to placement with the foster mother, case recordings stated the woman would not be a possible placement because of her background. The case recordings also stated that, prior to placement, the individual was arrested for criminal trespassing, disorderly conduct, and assault. Furthermore, the foster parent did not always maintain telephone service and did not provide transportation for the foster child. Numerous appointments for health and other services were not kept. In addition, the foster parent appeared to avoid contact with the case manager. DCS policy 16.3, I.6., states "Prospective foster parent(s) shall have the ability to . . . provide routine transportation for the foster children placed in their home." DCS policy 16.3, H.9., states, "Foster homes must be equipped with a telephone," and DCS policy 16.3, I.1., states, "Prospective foster parent(s) shall . . . work constructively within the Department's framework and directly with the case manager in developing plans and meeting the needs of the child and his/her family." Notwithstanding these serious issues, a waiver for PATH classes prior to

placement was provided by DCS, and the contracted agency proceeded with the foster care placement.

In summary, foster care payments of \$154,042 were made during periods when the children were not IV-E reimbursable and are questioned costs. The federal questioned costs total \$98,899, and the remaining \$55,143 is state matching funds. Total Title IV-E payments to foster care parents for the year were \$24,053,123.

During the period July 1, 2003, through December 15, 2003, management refunded \$9,774 of the federal amount questioned above.

Recommendation

In accordance with departmental Policies 16.35 and 16.36, case managers should ensure the eligibility of children for Title IV-E Foster Care is adequately documented in the case files and prompt and accurate status changes are recorded in the department's computer systems. As part of the department's prepayment authorization process, case managers should review information in the eligibility database and ensure that the Title IV-E reimbursement status is correct prior to payment. Furthermore, the Assistant Commissioner of Program Operations should ensure that criminal background checks are performed on all foster parents prior to a foster child being placed in the home, and after placement, he should ensure that foster parents comply with DCS foster care policies.

The Commissioner of the Department of Children's Services should require staff to review all foster parent files. Any foster parents found to be unfit as foster parents by virtue of their failure to meet the minimum qualifications prescribed by the department should be removed from the program. Children should not be placed with prospective foster parents who do not meet the eligibility requirements for providing a good foster home. Furthermore, the department should ensure that adequate follow-up on expedited placements is performed, and that PATH training and related requirements waived prior to placement are completed and documented.

Management's Comment

We concur. To address the Permanency Plan issues, DCS will implement the following controls. The department will revise its policy 16.35, "Title IV-E Foster Care Funds and Ongoing Reasonable Efforts to Finalize Permanency Plans," and policy 16.36, "Title IV-E Foster Care Funds, Court Orders, and the Initial Eligibility Determination Process," to include the directive that all case files must contain a signed copy of any court orders. The revisions will be effective March 15, 2004. In addition, training will be completed for all appropriate staff by April 15, 2004. Designated staff will provide the training regionally. The training will focus on the importance of reasonable efforts and the need for compliance with existing laws and policies. All Regional Administrators will be briefed on the Title IV-E Regulations and the importance of compliance. These requirements will be communicated at the monthly Regional Administrator's meetings. The Director of Quality Assurance will ensure that the training is completed by April

2004. In addition, Federal IV-E Regulations will be addressed during exit interviews for the foster care file reviews. These reviews are performed quarterly and are ongoing.

DCS Child Benefit Specialists will provide a list of any orders that do not include the required language each month to the DCS supervising attorney. The supervising attorney will contact the judge that issued the order to address the reasonable efforts language required by the department. DCS lawyers will offer to draft a revised order if the proof supports a finding of reasonable efforts. The departments' lawyers will assure that all orders drafted by staff attorneys contain the required language.

In the finding, twelve cases were cited for failure to include the required reasonable efforts language. DCS Legal has been in contact with the Shelby County Courts. Beginning February 10, 2004, Shelby County Courts has agreed to allow DCS attorneys to prepare the permanency hearing orders and include the reasonable efforts language. This should eliminate this portion of the finding.

Four exceptions were noted regarding eligibility and Title IV-E reimbursement. Eligibility for Title IV-E is maintained in CHIPFINS. The errors noted were due to changes in eligibility that were not updated to CHIPFINS in a timely manner. As a result, DCS received Title IV-E reimbursement for these expenditures. During the audit period, the department implemented programs to detect and refund Title IV-E reimbursements for children subsequent to retroactive adjustments of eligibility in CHIPFINS. Periodically these programs electronically compare each claim for each child in the funding database to eligibility information from CHIPFINS. If the Title IV-E eligibility status of a child has changed in CHIPFINS subsequent to the funding of the original transaction, adjustments are recorded to either claim or refund Title IV-E funds as required. Effective for the month of March 2004, these programs will be processed on a monthly basis to facilitate a more timely adjustment of claims to Title IV-E.

The remaining five cases were ineligible due to the lack of documentation of background checks and insufficient Parent As Tender Healers (PATH) training. Current policy is clear on the requirements for criminal background checks and thirty hours of PATH training prior to having children placed in the foster home. DCS policy 16.4 states, "A criminal background check to include fingerprinting and sex offender registry check must be completed on each foster parent applicant..." and it must be documented in the foster home record. It is apparent that DCS staff is not consistently complying with this policy. The department contracted with a vendor to complete computerized fingerprinting. To further improve fingerprinting procedures, the Commissioner has appointed a committee to review the current process and make recommendations for improvements. In addition Regional Administrators, with the aid of the Director of Foster Care, will develop regional plans for monitoring and review of Foster homes to ensure that background checks are performed and PATH training is received per DCS policy. Regional Administrators will be notified of the regional plans at the RA meeting scheduled for April 2004. All regional plans must be completed by April 30, 2004. At the same time, central office foster care staff will compile a list of all foster homes lacking a background check or PATH training. Any foster home lacking either a background check or PATH training has ninety days to meet all Title IV-E requirements. If established requirements are not met, the foster home will be closed. DCS contracts with The University of Tennessee for all training on

background checks and PATH requirements. DCS staff will meet with the University of Tennessee staff in March 2004. At that time, the department will stress the importance of criminal background checks and PATH training during the foster home approval process. DCS will communicate the significant role they play in educating and training DCS field staff, new and current, on the PATH requirements and background checks.

One exception was reported regarding inadequate monitoring of foster care placements with a contract agency. In this case a child was placed in an inappropriate foster home by the contract agency. Departmental staff feels that this is an isolated occurrence due to the contracted agency downsizing group home placements. To ensure that this is an isolated instance, the department has established a Quality Assurance Division. They monitor contracting agencies, respond to complaints or concerns regarding placements, and oversee licensing of all agencies providing foster care services. The Quality Assurance Division monitors the frequency of visitations and the documented results of the visits by private agency caseworkers. DCS Quality Assurance Division and Program staff will more closely monitor contract placements to prevent further instances.

The CHIPFINS system contains eligibility databases that play a key role in the accurate and timely submission of claims to Title IV-E. As discussed above, policies and procedures related to the documentation of the completion of key activities necessary to determine or maintain the Title IV-E eligibility status of the child and their timely update to CHIPFINS are being reviewed to determine their adequacy. DCS information systems will be modified to provide an indicator of the approval status of each foster home. Provisional foster homes will not be billed to Title IV-E subsequent to the modification of our systems. Claims will be adjusted retroactively to refund any claims for provisional foster homes. Management will establish procedures to monitor compliance with these policies and procedures to ensure the timeliness and accuracy of the eligibility data in CHIPFINS.

Management continues to actively pursue the goal of enabling the Financial Management, Placement Re-Design and Title IV-E Eligibility modules in TNKIDS. The first phase of the Financial Management segment of TNKIDS for Residential Treatment placements is in testing. The Placement Re-Design module is currently scheduled to be completed in January 2005. The Eligibility module is currently scheduled for completion in January 2006.

3. Case files did not contain adequate documentation of case manager compliance with departmental policies regarding contacts, timeliness of case recordings, and permanency plans for foster children

Finding

As noted in the prior four audits covering the period July 1, 1998, to June 30, 2002, the Department of Children's Services (DCS) did not have adequate documentation in children's case files showing case manager contact with the child, family, or other individuals. In addition, DCS did not maintain timely case note recordings and permanency plan hearings. DCS Policy

16.38 regarding face-to-face visits with children in foster homes or other DCS residential facilities states,

If a child moves to a new DCS placement at any time following his/her initial placement, the child shall be visited as if he/she were just entering care and shall be visited and seen face-to-face: (a) Six (6) times during the first eight (8) weeks of the new placement, (b) Once every two weeks for the second eight (8) weeks, and (c) Not less than two (2) times per month thereafter. The home county case manager shall have face-to-face contacts with the foster parents or agency staff as often as necessary, but no less than once each month.

Problems were again noted involving time lapses between documented case manager contact with the child, family, or other individuals as evidenced by case note recordings. Seventeen of 127 case files tested (13%) did not contain adequate documentation of case manager contact in accordance with DCS policy at the time the file was reviewed. In all 17 instances, there were gaps in dates between case manager contacts as documented in the case recordings, indicating noncompliance with applicable policies. Time lapses between documented contacts ranged from 34 to 81 days (averaging 47 days) in the files tested. The prior audit finding disclosed inadequate documentation of case manager visits in 7 of 115 case files examined (6%), with gaps ranging from 37 to 195 days (averaging 62 days).

In addition, DCS Policies 31.5, 9.2, and 9.9 indicate that a child's case file shall have a section titled "Case Recordings." Policy 31.5 states,

This section consists of, but is not limited to, chronological information concerning each contact with the child/family or other individuals. Appropriate documentation shall include the following: Narratives, monthly recordings, collaterals, case notes/progress notes, dictation, contacts or case documentation on child and family. Case recordings and all other documentation shall be added to the case file within 30 days of case work activity. Each case shall have a case recording for each month that the case is open.

Management concurred with the prior findings and stated, ". . . Management will continue its emphasis on making required contact with children in state custody and to document this contact timely in TNKIDS . . ."

As previously mentioned, DCS Policy 31.5 requires that case recordings and all other documentation shall be added to the case file within 30 days of case work activity. The TNKIDS system electronically records the date of each case recording entry to the file. Testwork comparing the date of entry with the date of activity disclosed several instances of untimely entries. Thirty-nine of 127 case files tested (31%) contained instances of case notes being recorded in TNKIDS more than 30 days after case activity, contrary to DCS Policy 9.1. Time lapses between the case activity and the date that the information was entered into TNKIDS ranged from 3 to 133 days past the 30-day deadline (averaging 30 days). The prior audit finding disclosed that time lapses between the case activity and the date that the information was entered

into TNKIDS for 49 of 115 case files tested (43%) ranged from 2 to 265 days past the 30-day deadline (averaging 51 days).

Our review of case files indicated that permanency plan hearings for children in foster care were again not always performed in accordance with DCS policy. Permanency plans are used to document the services to be provided and the permanency goals for a child while in state custody. According to DCS Policy 16.33, Foster Care and Permanency Planning Hearings, “The court shall hold a permanency planning hearing within twelve (12) months of the date of a child’s placement in foster care and every 12 months thereafter until permanency is achieved or until the child reaches the age of majority.” Permanency planning hearings are used to review the appropriateness of the established goals for a child and to determine what progress has been achieved in obtaining the stated goals. In 20 of 120 foster care case files tested (17%), the child’s file did not contain evidence that the permanency planning hearing was held within the 12-month criteria as described in DCS policy. DCS Policy 16.33 further states, “A copy of the court order reflecting the hearing’s outcome shall be obtained and filed in the child’s case record.” The department’s legal staff was subsequently able to document that permanency plan hearings were held within the required time frames for seven of these children, supporting their Title IV-E funding eligibility. However, since the documents were not in the child’s case file as prescribed by DCS Policy 16.33, all twenty files were out of compliance with the department’s policies. It was noted that the permanency planning hearings occurred at least from one to 16 months after the required hearing date for the other children. The prior audit finding disclosed that 5 of 115 foster care case files tested (4%) did not contain evidence that the permanency planning hearing was held within the 12-month criteria as described in DCS policy.

Recommendation

The Assistant Commissioner of Program Operations should continue to ensure that case managers are making required contact with children in state custody and documenting the contacts made. Proper documentation, as described in DCS policies, should be prepared within a reasonable time after the visit and entered into TNKIDS within 30 days of the visit. All services provided to a child should be documented in the child’s case file. In addition, quarterly monitoring of case files by field supervisors and case file reviews by central office staff from the Division of Program Operations should specifically address compliance with DCS Policy 31.5. Permanency planning hearings should be conducted according to DCS policy, and documentation of the hearing should be included in the child’s case record.

Management’s Comment

We concur. The department continues to improve its performance regarding contacts, timeliness of case recordings, and permanency plans for foster children. DCS is encouraged that the average number of days between documented contacts was reduced from 62 days to 47 days. Also, the department has reduced the percentage error rate for entering case recordings into TNKIDS within thirty days by 12% and decreased the average number of days to enter recordings to 30 days. In the prior audit it was averaging 51 days. To continue to improve the

process, DCS began production of a TNKIDS report on contacts in December 2003. The report is based on case recordings that document case manager-child visits, parent-child visits, sibling visits, and case manager-parent visits. This is a live report on TNKIDS available to all TNKIDS users. Supervisors can use this report to easily identify case managers who may be struggling to comply with contact and visitation standards. Quality assurance will continue to review 120 cases each month for compliance with contact and visitation standards. Regional Administrators will be required to use available data to more closely monitor case manager and team performance, and to provide support and leadership in this area. Job Performance Plans will be revised for case managers and supervisors specifically listing contact and visitation standards. In occurrences of extended non-compliance progressive discipline can be exercised. In the six-month follow-up dated September 16, 2003 the Permanency Plan Support Unit was conducting statewide training to all case management staff on quality case recordings. This training was completed statewide in December 2003. In addition, Policy 31.14, "Case Recordings for Foster Care, Adoption Services, and Juvenile Justice Cases," became effective September 1, 2003.

In order to address the timeliness of permanency plan hearings, the department will continue to send notice or file motions to set permanency plan hearings sufficiently in advance of the 12-month date. DCS will track the due dates of the hearings and re-schedule hearings one month earlier in rural counties to allow for scheduling issues. When the court staff sets permanency hearings, the department will work with the court staff to assure the court is scheduling hearings timely. When parties are missing at the annual hearings, DCS staff will urge the court to hear the evidence from the people that are present and enter an order regarding reasonable efforts by DCS. If necessary, the Court can continue the hearing until the next month in order for the absent parties to be heard and amend or supplement the order to reflect any new testimony. DCS will contact the Tennessee Juvenile and Family Court Judges Association and request their cooperation in holding hearings and issuing orders that mirror the statutory requirements, including Title IV-E reimbursement.

4. Adoption Assistance files did not contain adequate documentation

Finding

As noted in the prior-year audit covering the period July 1, 2001, through June 30, 2002, adoption assistance case files did not contain adequate documentation to support the adoption assistance subsidies paid to the adoptive parents. The total federal share of payments made for the Adoption Assistance program was \$12,288,933.

Management concurred with the prior audit finding and stated, "The Department of Children's Services will draft a policy to govern adoption assistance case files that parallels the current DCS Policy 31.5 for foster care case files. This policy will include a listing of items located in the file, procedures for periodic case file review and scheduled redeterminations of eligibility for adoption assistance." However, the draft policy was not implemented during the year. As of September 16, 2003, management stated that the policy would be submitted for official review and comment by October 1, 2003. Although the staff had drafted a policy, as of December 15, 2003, the policy had not been submitted for official review and comment.

The Adoption Assistance Program contributes financially to assist families, otherwise lacking the financial resources, in adopting eligible children with special needs. Adoption assistance payments are to be based on the child's needs and the family's circumstances. Families must renew assistance annually by completing an application, agreement, and a notarized affidavit. Federal regulations require the state to make reasonable efforts to place a child for adoption without a subsidy. According to departmental policy, the case manager must ask prospective adoptive parents if they are willing to adopt without Adoption Assistance payments. If the family says they cannot adopt without Adoption Assistance payments, the department considers the reasonable efforts requirement to have been met, and the process for obtaining Adoption Assistance begins. Title IV-E federally funded Adoption Assistance is available until the child reaches age 18 or up to age 21 if the child has a mental or physical handicapping condition as established in the initial Adoption Assistance Agreement. If the child does not meet handicapping conditions at age 18, the Title IV-E Adoption Assistance payments cease. However, the adoptive parents may receive state-funded adoption assistance if the child remains in high school and the original adoption assistance agreement was created after October 1997. The adoptive parents may also receive state-funded adoption assistance if the child is in any full-time school and the original adoption assistance agreement was created prior to October 1997. Department of Children's Services Policy 15.10, "Adoption Assistance Agreements Created Prior to October, 1997," states, "School attendance or handicapping condition must be verified and documented in the adoption assistance case file."

Adoption Assistance files did not contain adequate documentation related to the applications, agreements, and yearly renewal affidavits that must be completed by the adoptive parents, as required by the department's *Adoption Services Procedures Manual*. In addition, documentation supporting payments for children over 18 was missing. Based on a review of 129 Adoption Assistance case files, 25 case files (19%) did not have adequate documentation as mentioned below.

- Two files were missing the applications, agreements, and renewal affidavits. The federal questioned costs for these payments totaled \$3,169, with an additional \$1,781 in state matching funds.
- Two files were missing the agreement and the renewal affidavit. In addition, one of the two children was over 18, and the file did not have documentation to indicate that the child continued to have a physical or mental handicap that warrants federal Adoption Assistance funding. The federal questioned costs for these payments totaled \$3,491 with an additional \$2,362 in state matching funds.
- One file did not have the renewal affidavit notarized. In addition, the case manager's documentation indicated the child was not eligible for federal Adoption Assistance funding as of March 14, 2003. The federal questioned costs for these payments totaled \$1,397 with an additional \$766 in state matching funds.
- Eight files were for children over 18 and did not have documentation to indicate that the children continued to have physical or mental handicaps that warrant federal

Adoption Assistance funding. The federal questioned costs for these payments totaled \$23,707, with an additional \$13,586 in state matching funds.

- Five files contained agreements and/or applications that indicated the children's Adoption Assistance should be state funded; therefore, the children were not eligible for federal Adoption Assistance funding. In addition, one child's agreement and affidavit were signed late. Also, one case file included an agreement that was not dated by the adoptive parents. The federal questioned costs for these payments totaled \$9,801, with an additional \$5,461 in state matching funds.
- Two files contained renewal affidavits that were notarized after the effective dates of the agreements.
- One file contained an agreement that was not dated by the adoptive parents, and the renewal affidavit was notarized late.
- One file contained an agreement that was signed by the adoptive parents after the effective date of the agreement.
- Three files contained agreements that were not signed by the case manager.

The total federal questioned costs for these payments were \$41,565, with an additional \$23,956 in state matching funds.

Recommendation

The Commissioner should finalize a formal policy to delineate the required contents of adoption assistance case files, similar to the current policy, "Administrative Policies and Procedures 31.5," which governs foster care case files. The Assistant Commissioner of Program Regional Services and the Director of Adoptions should develop procedures to ensure that Adoption Assistance case files are complete and that renewals and extensions of agreements are current and adequately supported, especially with regard to the conditions justifying agreements which extend past the child's 18th birthday. Any changes in eligibility for Adoption Assistance funding should be documented in the case file, and related adjustments in funding should be made immediately.

Management's Comment

We concur. The Department of Children's Services will implement more internal controls over adoption assistance case files by instituting the following procedures. Beginning February 2004, regional staff will perform a desk review of all current Adoption Assistance Agreements against a list of current payments made through fiscal services. Regional staff will be required to provide a report of the findings and suggest a corrective action plan for all discrepancies. To ensure the accuracy of payment rates, field staff will be required to submit

copies of all new agreements and any renewals or revisions with the Subsidized Adoption Turnaround Document (Form 16) to fiscal services for payment and funding verification purposes.

In addition to the above procedures, Adoption Services staff is reviewing all policies, procedures, and Adoption Assistance form instructions. These documents will be revised to clarify the requirements for review, approval, and signatures by supervisory staff. Also, Policy, "Contents of Adoption Assistance Case File" has been drafted. This policy addresses the requirement of the notarized affidavit and outlines all requirements for Adoption Assistance files. This policy will be finalized in March 2004. Beginning March 2004, training for all DCS staff and provider agency staff will be conducted. All training will be completed by December 2004.

To address payments made for children turning 18, 21, or 3 years of age, the department plans to implement better internal controls and more communication between the fiscal services staff and adoptions services staff located in the field. In April 2003 the department began distributing a monthly report of all children who will turn three, eighteen, or twenty-one within three months of the report date. Beginning March 2004, Adoption Services Team Coordinators are required to review the adoption assistance case file to ensure that payment adjustments are appropriate for children turning three years of age and that appropriate documentation is included for continuing eligibility for children turning eighteen years of age. The regional list of three and eighteen year olds and any supporting documentation must be submitted to Central Office Adoption Services staff. When all items are correct and have the proper documentation, the regional report and documentation will be submitted to Fiscal Services. All information must be submitted prior to the payment period. Fiscal Services will make no payments until the regional list of three and eighteen-year olds and any supporting documentation are submitted. Policy "Contents of Adoption Assistance Case File" will include the above process. In addition, the CHIPFINS system will be enhanced to automatically stop payments for children twenty-one years of age and for children turning three years old where there is no decrease in the regular and special circumstances rate. This will begin in April 2004. Finally, revisions will be made to the Adoption Assistance Agreement. The current adoption assistance agreement will be revised to emphasize the parents' responsibilities in reporting changes within the family's circumstances that would impact the child's eligibility for adoption assistance. It will also state that failure to comply could result in personal liability and legal action.

- 5. For the seventh consecutive year, Children's Services inappropriately requested and received reimbursement from TennCare for children not eligible for TennCare services; total overpayments were \$1,742,440**

Finding

For the seventh consecutive year, the Department of Children's Services (DCS) has requested and received reimbursement from TennCare for services provided outside the scope of its agreement with the Bureau of TennCare, the TennCare waiver, and the State Plan.

This is a repeat finding that was addressed by the U.S. Department of Health and Human Services (HHS) in a letter to the Commissioner of the Department of Finance and Administration regarding the Single Audit of the State of Tennessee for the period July 1, 2000, through June 30, 2001. In the letter, HHS stated:

This is a repeat finding. We recommend 1) procedures be implemented to ensure Federal funds are not used for health care costs of a) children who are in youth development or detention centers, b) children not in State custody, c) children on runaway status, . . . e) services provided by Children's Services to individuals in hospitals, . . . g) undocumented targeted case management . . .

Although the department had made progress in previous years in reducing reimbursements for services provided outside the scope of its agreement with TennCare, this year, there was a significant overall increase in the total amount of inappropriate reimbursements in the following areas.

Payments for Incarcerated Youth

As noted in the prior six audits, and despite management's concurrence with the findings, Children's Services continued to request and receive reimbursement from TennCare for medical expenditures on behalf of children who were not eligible for TennCare because they were in locked facilities. Under federal regulations (*Code of Federal Regulations*, Title 42, Part 435, Sections 1008 and 1009), delinquent children who are placed in correctional facilities operated primarily to detain children who have been found delinquent are considered to be inmates in a public institution and thus are not eligible for Medicaid (TennCare) benefits. The state, not the federal government, is responsible for the health care costs of juvenile and adult inmates.

Management's response to the prior audit stated that the implementation of the new Standard Claim Invoice (SCI) procedure codes for services that are ineligible for TennCare reimbursement, and the associated provider training in the use of these codes, had effectively enhanced controls and resulted in increased compliance by the department. However, using computer-assisted audit techniques, our search of TennCare's paid claims records revealed that once again TennCare was inappropriately billed for and made payments totaling at least \$189,598 from July 1, 2002, through June 30, 2003, for juveniles in youth development centers and detention centers. The prior audit finding disclosed inappropriate billings of \$77,667 from July 1, 2001, through June 30, 2002.

Children Not in State Custody

As noted in the prior four audits, Children's Services inappropriately billed and received payment from TennCare for children not in state custody. Management's response to the prior audit finding attributed the problem to the use of incorrect procedure codes by the provider on the Standard Claim Invoice (SCI). Management also stated the discrepancies noted that were reviewed by departmental staff were related to youth in placements who had reached the age of majority and elected to continue receiving care from the department in accordance with DCS Policy 16.51, *Provision of Post Custody Services to Youth Exiting Care at 18 or 19 Years of Age*.

TennCare contracts with DCS to provide the necessary TennCare enhanced behavioral health services for children in state custody. All behavioral services for children not in state custody should be provided through the TennCare Behavioral Health Organizations (BHOs). Using computer-assisted audit techniques, we performed a data match comparing payment data on the Bureau of TennCare's system to custody records from DCS's Tennessee Kids Information Delivery System (TNKIDS). The results of the data match indicated that once again DCS had improperly billed TennCare \$1,208,292 from July 1, 2002, through June 30, 2003, for services to children who were not in the state's custody. The prior audit finding disclosed inappropriate billings of \$193,266 from July 1, 2001, through June 30, 2002.

Children on Runaway Status

As noted in the prior four audits, Children's Services inappropriately billed and received payment for children who are in the state's custody but are on runaway status. Since TennCare is permitted to pay only for actual treatment costs, TennCare should not be billed for services that were not provided while children were on runaway status. In response to the prior audit finding, management stated that the implementation of the new Standard Claim Invoice procedure codes for this break in custody and the associated provider training in the use of these codes have effectively enhanced controls and resulted in increased compliance by the department. However, using computer-assisted audit techniques, auditors performed a data match comparing payment data from the Bureau of TennCare to runaway records from DCS's TNKIDS system. The results of the data match indicated that once again DCS had improperly billed TennCare \$217,123 from July 1, 2002, through June 30, 2003, for services to children on runaway status. The prior audit finding disclosed inappropriate billings of \$86,917 from July 1, 2001, through June 30, 2002.

Hospitalized Children

As noted in the prior three audits, Children's Services inappropriately billed and received payment for children who are in the state's custody but had been placed in a medical hospital. The Managed Care Organizations (MCOs) are responsible for costs incurred while the child is placed in a hospital. Children's Services' provider policy manual allows service providers to bill Children's Services for seven days if the provider plans to take the child back after hospitalization. If the provider has written approval from the Regional Administrator, the provider may bill DCS for up to 21 days while the child is in the hospital. However, Children's Services cannot bill TennCare in either case.

In response to the prior audit finding, management stated that it's their position that the implementation of the new Standard Claim Invoice procedure codes for TennCare reimbursement and the associated provider training in the use of these codes has effectively enhanced controls and resulted in increased compliance by the department. However, the control structure did not adequately reduce noncompliance with these requirements. Using computer-assisted audit techniques, auditors performed a data match comparing TennCare's payment data to encounter data from the MCOs and the BHOs. The results of the data match indicated that for the year ended June 30, 2003, DCS had improperly billed TennCare \$127,427 for enhanced behavioral health services for children who are in the state's custody but had been placed in a medical hospital or a behavioral health facility. Of this amount, \$15,123 was for children in medical hospitals and \$112,304 was for children in behavioral health facilities. The prior audit

finding disclosed inappropriate billings for children in medical hospitals of \$35,041 from July 1, 2001, through June 30, 2002.

Recommendation

Note: This is the same basic recommendation, for the repeated portions of the finding, made in the prior audit.

The Commissioner should continue to develop and implement procedures necessary to ensure that TennCare is not billed for inappropriate expenses related to children in youth development and detention centers, not in state custody, on runaway status, or placed in hospitals. Effective internal control requires management to have systems in place to adequately monitor operations, particularly relating to such compliance issues. Management could develop the information necessary to detect these discrepancies by using the types of computer analyses auditors have used to identify these problems. The Commissioner should monitor the implementation of corrective measures and evaluate their effectiveness. Management should make it a priority to bill TennCare only for allowable services provided to eligible children.

Management's Comment

We concur. DCS has taken the following step to reduce billing errors to TennCare for the Targeted Case Management and Residential Treatment services. The department has developed an extract from TNKIDS to match with transactions to be billed to TennCare. This should eliminate billings for children who were hospitalized, incarcerated, not in state custody, or on runaway status. Computer programs have been developed to facilitate this control feature; however, user testing has not been completed. User testing is expected to be completed during the month of February 2004. Also, the department has requested and the Bureau of TennCare has submitted to the federal government a state plan amendment that would allow the billing of TennCare for voluntary services received by children after they have aged out of custody but are under the age of twenty-one. Currently, billing is only allowed for children who are at risk of being placed or in state custody up to the age of eighteen.

The Commissioner of DCS will immediately appoint staff to serve on a management team from Information Systems, Regional and Central Office Program Operations, and Fiscal to address issues which impact the provision, documentation, and billing of eligible services to TennCare for Targeted Case Management and Residential Treatment. Team members will be charged with ensuring compliance with the terms of the contract between DCS and the Bureau of TennCare, ensuring compliance with the Bureau of TennCare's state plan and all applicable state and federal regulations, and implementing the recommendations of this audit finding.

It should be noted that all claims questioned by the state auditors have been voided by the Bureau of TennCare subsequent to June 30, 2003. Files provided by the Bureau of TennCare indicate that all voids for these claims questioned had processed in TennCare's system by December 5, 2003.

6. The department committed funds without approval

Finding

Since July 1, 2003, the Department of Children's Services (DCS) has committed state and federal TennCare funds before it had a contract with the Department of Finance and Administration, Bureau of TennCare, to provide services. This contract would serve as the legal instrument governing the activities of TennCare as they relate to Children's Services and should specify the scope of services, grant terms, payment terms, and other conditions. As of November 14, 2003, an interdepartmental grant agreement between the Department of Finance and Administration, Bureau of TennCare, and the Department of Children's Services had not been executed for the period July 1, 2003, through June 30, 2004. During this time, TennCare reimbursed the Department of Children's Services \$36,270,268 for services provided. Not having an executed contract in place at the beginning of the fiscal year can lead to confusion between the parties regarding the scope of services, grant terms, payment terms, and other conditions.

Recommendation

The Department of Children's Services and the Department of Finance and Administration, Bureau of TennCare, should ensure that a contract between the two departments is in place at the start of each fiscal year before services are provided.

Management's Comment

We concur. Negotiations between DCS and the Bureau of TennCare and the Department of Health began months prior to the end of the interagency agreement that expired on June 30, 2003. DCS agrees that an interagency agreement should have been fully executed prior to the beginning date of the period covered by the agreement. DCS agrees to participate with the Bureau of TennCare and the Department of Health to establish a process that will prevent re-occurrence of the condition described in the finding. The Commissioner of DCS will appoint a management team to coordinate DCS activities with the Bureau of TennCare and the Department of Health. This management team will keep the Commissioner informed of the status of issues to resolve between DCS, the Bureau of TennCare, and the Department of Health that would prevent timely execution of the agreement.

It should be noted that DCS provides a complex array of services for children who are either in state custody or at risk of coming into the custody of the State of Tennessee. Services provided to TennCare eligible children include medical, educational, social, and other services critical to the well being of each child. DCS must continue to provide these services for TennCare eligible children even while the interdepartmental agreement is in the contract approval process. Activities performed by DCS to facilitate access to these services cannot cease or be delayed without potential harm to children in DCS custody.

STATUS OF PRIOR AUDIT FINDINGS

State of Tennessee *Single Audit Report* for the year ended June 30, 2002

Audit findings pertaining to the Department of Children's Services were included in the *Single Audit Report*. The updated status of these findings as determined by our audit procedures is described below.

Resolved Audit Findings

The current audit disclosed that the Department of Children's Services has corrected previous audit findings concerning purchases of goods and services for foster care recruitment before receiving authority and circumventing purchasing rules through the creation of a fiscal agent relationship with Memphis and Shelby County Community Services Agency.

Repeated Audit Findings

The current audit disclosed that the Department of Children's Services has not corrected the previous audit findings concerning collecting overpayments due from foster care and adoption assistance parents, charging the Title IV-E program for ineligible children, documenting case manager compliance with departmental policies in case files, maintaining adequate documentation in adoption assistance files, and inappropriately requesting and receiving reimbursement from TennCare for ineligible children. These findings will be repeated in the *Single Audit Report* for the year ended June 30, 2003.

Most Recent Financial and Compliance Audit

Audit report number 02/103 for the Department of Children's Services, issued in April 2003, contained certain audit findings that were not included in the State of Tennessee *Single Audit Report*. These findings were not relevant to our current audit and, as a result, we did not pursue their status as a part of this audit.